

Who's in Charge? An Empirical Investigation of Executive Staffing Policies in Overseas Chinese Firms based in Japan

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I . Introduction

II . Theoretical background and hypotheses

III . Method

IV . Discussion and conclusion

V . Directions for Future Research

Abstract

This empirical study investigates the extent to which executive nationality staffing practices patterns in affiliates of multinationals from Overseas Chinese Firms based in Japan. Use a sample of 173 Overseas Chinese companies based in Japan from Toyo Keizai (2008). Our results show that large size and high ownership is associated with large number of parent-country nationals (PCNs) in executive manager, while firms established early and expanded complexity, are not associated with larger number of PCN in executive manager. Cultural variables, Power Distance Index (PDI) and Uncertainty Avoidance Index (UAI), were found to be associated with the likelihood of multinationals sending PCNs to executive positions.

Keywords:

PCNs (parent-country nationals), Chinese firms in Japan, HRM practice, MNCs ownership, Cross-Cultural management

I . Introduction

This study deals with the executive staffing practice patterns of multinational corporations (MNCs) subsidiaries across borders. One of the major research questions in this topic area has long been the extent to whether the staffing policy in foreign affiliates should be to employ mainly Parent Country Nationals (PCNs) or Host Country Nationals (HCNs) (e.g., Tung, 1982; Harzing, 2001a; Fey, & Furu, 2008; Mackey, 2008).

While most research on patterns of executive staffing practice for foreign affiliates

has examined MNCs from Western countries, mostly focus on Japanese, European and American MNCs (e.g., Pudelko & Harzing, 2007). Besides those from the developed countries, some MNCs from developing countries (latecomer economy player), especially from the Asia-Pacific region, have already become significant global players (Mathews, 2006). For example, 35 firms are from Asia in the “Top 50 TNCs from developing economies” by UNCTAD (2004), and 5 of Overseas Chinese firms are in the Top 10.¹⁾ In spite of some studies that have been focused on MNCs from developing countries, most are conducted by case studies on the internationalization processes of the firms (e.g., Li, 2003). Very few attempts have been made at the executive staffing practice patterns of these Chinese firms. Yet, as for the increasingly ‘Globalised’ world economy, HRM practices have been identified as an important component that may help MNCs create competitive advantages (Schuler & Jackson, 1987). In Japan, in total, 173 Overseas Chinese firms have created a total employment of 8304.²⁾ Although this number cannot be said to be large, regarding the present question: Who are in charge of these Overseas Chinese firms?

Dicken (2007) mentioned that ‘East Asian way’ of doing business actually contrast with that of firms in the West. Redding (1991) pointed out that personal relationships based on *guanxi* (personal networks) plays a central role. Family control, minimizing dependence on outsiders for key resources, and a tight inner circle of decision-makers are basic characteristics. China, Hong Kong and Taiwan are rooted from same Confucianism-culture.³⁾ Thus, most studies on Overseas Chinese firms had focus on the organization of family. Few studies considered executive staffing practice of the affiliates from Overseas Chinese.

This study employed a design in which I investigate Overseas Chinese firms in Japan. As the Japanese government recognizes that inviting in foreign firms is an indirect means of promoting reform, through exposing Japanese firms to competition, former prime minister, Koizumi set a target of doubling FDI between 2001 and 2006, and also, *JETRO*, as Japan’s central investment promotion agency, has a target of FDI to reach 5% of GDP by 2010,⁴⁾ Therefore, I need to investigate more about the present staffing problems and

1) See UNCTAD 2004, Table 1.3.1: 22.

2) There are also some Overseas Chinese firms from Indonesia, Malaysia, Thailand and others, but, as the number of these in Japan is too small, and it is hard to divide them from that country, I did not put them in.

3) See Redding, 1991:36,45.

4) *Economist*, 2007: 15-17.

challenges of FDI investment by foreign MNCs in Japan to grasp the implications for changes in Japanese style HRM.

This paper will first provide an overview of previous research on HRM practice. Secondly, a methodology section discusses data collection, the sample of firms in the study, measures used empirical study, and present the results of the study. Finally, the research finding will be discussed and implications for further research will be shown.

II . Theoretical Background and hypotheses

Perlmutter (1969) identified three different international orientations: the *ethnocentric approach*, the *polycentric approach*, and the *geocentric approach*. The *ethnocentric approach* implies that the key management style, knowledge, evaluation criteria and management positions of a firm are filled by parent-country people. In complete contrast to this approach, the *polycentric approach* implied that firm recruits the host-country nationals to manage affiliates. Finally, the *geocentric approach* implies that firms seek the best people from a world-wide pool for key management positions, regardless of nationality. In the latter publication Heenan and Perlmutter (1979) defined a fourth approach: *regiocentric approach*. This approach resembles to the geocentric approach, but has a regional (e.g., the European Union) instead of world-oriented.

Although this is a prominent field in international HRM literature, according to Harzing (2001b), there are only a few studies (Tung, 1982; Kopp, 1994; Harzing, 2001b; Boyacigiller, 1990) that examined actual MNCs staffing practice. Tung (1982) and Kopp (1994) compared international HR Policy in Japanese, European and American MNCs. The study of Harzing (2001b) based on archival data for 2689 affiliates of nearly 250 different MNCs, provided detailed information on the relative use of PCNs for the managing director position in foreign affiliates. Based on the data of a single American MNCs, Boyacigiller (1990) provided an empirical analysis of factors influencing executive staffing practices.

Another stream of study on staffing policies and practices for foreign affiliates has investigated why international managers are transferred. The first study on this field was conducted by Edström and Galbraith (1977). They found three reasons that motivate a firm to make this type of transfer: the first was to *fill positions*. The second was *management development*. The final one was *organization development*. *Filling positions* concerns the transfer of technical and management knowledge. This motive usually

happens in developing countries, where qualified local national might not be available, but specific knowledge transfer might be necessary to affiliates in developed countries as well. The motive for *management development* gives the manager international experience and develops his/her for important future tasks in affiliates abroad or with the parent company. The motive of *organization development* consists of socialization of both expatriate and local managers into the corporate culture and the creation of a verbal information network that provides links between affiliates and headquarters. After Edström and Galbraith's study, many German studies focused on this field (Harzing, 1999a).

Although, as the studies have been mentioned above, though each MNCs subsidiary operates in a different environment, only a little research has been done with regard to the importance of environment (e.g., Bartlett & Ghoshal, 1998; Gupta & Govindarajan, 1991). Ghoshal and Nohira (1993) distinguished four types of MNCs Environments: a *global environmental* in which the forces for global integration are strong and for local responsiveness are weak; a *multinational environment* in which the forces for national responsiveness are strong and for global integration are weak; a *transnational environment* in which both contingencies are strong, and a placid *international environment* in which both contingencies are weak. Furthermore, when a MNCs expands its affiliates in the different environment, according to Doz, Bartlett, and Prahalad (1981), Prahalad and Doz (1987), the affiliates will face two types of competitive pressure: those for global integration (or MNCs 'standardization') versus local responsiveness (or 'localization'). And from these studies, Kobrin (1994) mentioned that staffing policies adopted by a firm are not only driven by its geographic scope, but also its strategic orientation, so when I analyze the staffing policies of affiliates on foreign affiliates, I should focus on both the geographic preference and the strategic orientation of the company.

Hypotheses

This study examines executive staffing policies of Overseas Chinese Firms in Japan. Japan is an interesting location for studying staffing in MNCs affiliates, many MNCs expanded their activities in Japan after post WWII (Kuwahara, 2007). I investigate the following factors.

National Culture Differences between Parent Country and Host Country

National culture differences have been identified as an important factor to influence the assignment of PCN managers (Hofstede, 1980). Pudelko and Harzing (2007) point out that “the culturalist tradition leans heavily on the work on Greet Hofstede, and in particular the indices of national cultural dimensions he developed”. Similarly, Trompenaars & Hampden-Turner (1998) present a seven-dimensional model of national culture differences. While, compared to the study by Hofstede (1980), the data of the study by Trompenaars & Hampden-Turner (1998) covered about 15,000 respondents, some were participants in Trompenaars’ cross-cultural training programs, others were employees in 30 companies from 50 different countries. The database of Trompenaars’s study is not clear, academically, but it is an essential guide for global managers in MNCs. As for this reason, in this study, I use the five cultural dimensions that Hofstede developed. Hofstede used responses by 160,000 managers and employees from IBM, the survey generated more than 116,000 questionnaires, with the number of respondents used in the analysis being approximately 30,000 in 1969 and 41,000 in 1973. Hofstede found that managers and employees vary on four primary dimensions: individualism/collectivism, power distance Index (PDI), uncertainty avoidance Index (UAI) and Masculinity/Femininity.⁵⁾

In this study, I focus on the PDI, UAI, other two dimensions are less relevant to this study as Masculinity is used to analysis gender preferences and individualism is used to analysis whether our decisions preference should be made in our own way rather than be made by the organization.

PDI refers to *dependence* relationships. In low PDI countries, there is limited dependence of subordinates on bosses, managers will rely on their own experience and on subordinates, and organizations are fairly decentralized. On the contrary, in high PDI countries, there is considerable dependence of subordinates, managers will rely on superiors and on formal rules, organizations centralize power, as much as possible, in a few hands.⁶⁾ That is to say, PDI corresponds to a need for a centralized management system. So, as the increase of centralized decision-making style increases, higher PDI cultures may

5) Although Hofstede’s study has elicited some criticism, it is largely accepted as a helpful though crude way to quantify cultural differences (see Sondergaard, 1994 for a summary of reviews, replications and citations.).

6) Key Differences Between Small- and Large-Power-Distance Societies, see Adler. 2002: 59.

increase the number of expatriates in executive positions in overseas affiliates. Harzing (2001, 2002) noted that the employment of PCNs in management-positions in overseas affiliates is one way of achieving high levels of control. Therefore, the hypothesis is:

Hypothesis 1: PCN subsidiary executive managers will be more prevalent in MNCs from countries whose national culture is characterized by a high level of PDI.

UAI reflects the extent to which people in a society feel threatened by ambiguity and therefore try to avoid ambiguous situations. In weak UAI countries, top managers are concerned with strategy, employees are motivated by achievement, there will more changes of employer and shorter service; on the contrary, in strong UAI countries, top managers are concerned with daily operations, employees are motivated by security, there will fewer changers of employer and longer service.⁷⁾ So, uncertainty is related control in organization. Therefore, the hypothesis is:

Hypothesis 2: PCN subsidiary executive managers will be more prevalent in MNCs from countries whose national culture is characterized by low level of UAI.

Affiliate Factors

A considerable number of studies have focused on the factor influenced by subsidiary management (e.g., Harzing, 1999a, 1999b, 2001). Thompson and Keating (2004) point out that even if several affiliates from the same MNCs are located in the same host country, they may each apply a different approach to staffing.

Size: Larger affiliates may tend to present a great investment risk and thus requires more attention from headquarters, while larger affiliates may find themselves more in need of resources from the local environment, and may be more dependent on local employees (Rosenzweig & Nohria, 1994; Boyacigiller, 1999). Therefore, the hypothesis is:

Hypothesis 3: The size of the subsidiary is negatively related to the likelihood of staffing a PCN executive manager.

7) Key differences between weak and strong Uncertainty Avoidance Societies see Adler. 2002: 59-60.

Age: An Empirical study by Franko (1973) suggests that MNCs will adopt HCN managers as the company gains more experience in the host country. While Boyacigiller (1999) point out that age has little effect on the staffing patterns of overseas branches over other factor, like political risk and cultural distance. When a subsidiary has just been established, MNCs may feel a higher need to ensure its operations are in accordance with MNCs' staffing policies and will hence use trusted PCNs. When affiliates become more established, local recruitment may be easier, some transfer of knowledge and training of local managers may have been affected. Therefore, the hypothesis is:

Hypothesis 4: The age of the subsidiary is negatively related to the likelihood of a PCN as an executive manager.

Ownership: Ownership share should affect the independence and decentralized decision-making process of MNCs' subsidiary. Large, majority-owned affiliates show higher independence that it may require more information processing from headquarters. Executive-positions become important for this reason. In small, minority-owned affiliates that are much lower in the corporate reporting hierarchy⁸⁾, the subsidiary will request more commitment with the majority owners to make the decision-making processes flexibly. Therefore, the hypothesis is:

Hypothesis 5: The ownership of the subsidiary is positively related to the likelihood of a PCN as an executive manager.

Complexity: Galbraith (1973) emphasized the complexity of the organizations deserves careful attention about the information processing between headquarters and its subsidiaries. Boyacigiller (1990) defines complexity as the aggregate level of task complexity in each foreign affiliate; Boyacigiller submits that complex branches will tend to be staffed with more experienced and knowledgeable employees. Therefore, the hypothesis is:

Hypothesis 6: The complexity of subsidiary is positively related to the likelihood of a PCN as an executive manager.

8) See Harzing, 2004: 58-259.

III . Method

Data collection and sample

Table 1: Description of firms in Terms of Country · Industry Sector and Culture Characteristics

		<i>Hofstede's Five Cultural Dimensions</i>		<i>Manufacture</i>	<i>Service</i>		<i>Total</i>
		<i>Power Distance</i>	<i>UAI</i>		<i>Sale</i>	<i>Other</i>	
<i>Country</i> (Parent Country Nationals %)	China (81.8%)	80	30	9	27	31	67
	Hong Kong (37%)	68	29	9	19	21	49
	Taiwan (68.4%)	58	69	12	29	16	57
	Japan	54	92				
<i>Total</i>				30	75	68	173

Source: calculated from *Gaishikei-kigyo soran* in *Toyo Keizai* (2008)

The data on executive staffing practices at top management level, including executive managers, is collected from a secondary data sources: *Gaishikei-kigyo (Foreign Company in Japan) soran* in *Toyo Keizai* (2008), listing 3301 firms in Japan with foreign direct investment in 2008. 173 overseas Chinese companies, are drawn from *Gaishikei-kigyo soran* (See Table 1). The statistical analysis is conducted by *SPSS* for Windows Version 13.0©.

Measures

Dependent Variables

The dependent variables are the nationality of the executive managers which can be classified as a PCN, HCN, or TCN. TCN cannot be identified in this study as I use secondary data sources. The nationalities of managers are classified by their names, as either foreigner or Japanese, as which used in similar studies (e.g., Harzing, 2001; Thompson & Keating, 2004; Bebenroth, et al., 2008). As for the reliability of this classification method, Harzing (2001) reported an error rate of less than 3 per cent, in this study, due to the relative ease of differentiation Japanese names from Western and other Asian names, these assumptions can be assumed to be safe.⁹⁾

9) See Thompson & Keating, 2004: 780, while the naturalization change of the foreign managers may affect the quality of the dependent variable, I cannot identify this here.

Independent and Control Variables

Independent variables consist of power distance dimension, uncertainty avoidance, size of subsidiary, age of the subsidiary, ownership share, complexities of the subsidiary.

Independent variables of power distance dimension (PDI), uncertainty avoidance (UAI) were obtained from Hofstede. The other independent variables of subsidiary size, age, ownership share, complexity can be obtained from *Gaishikei-kigyo soran* in *Toyo Keizai* (2008). Independent variable of complexity is calculated below:

$$\text{Complexity} = N (\text{headquarter} + \text{branch} + \text{office} + \text{factory} + \text{R\&Dcenter})$$

To make the data used in this study to have a normal distribution, I categorized the data. For the measurement of ownership, a categorical variable was used that I coded 1 for minority-owned business (0~50), 2 for co-owned business (i.e., 50:50 ownership), 3 for majority-owned business (50~100) and 4 for wholly owned business. In addition, a dummy variable was used, for example, a dummy variable 1 when the firm possessed a minority-owned and 0 for otherwise. For the measurement of subsidiary age, categorical variable was used too. I coded 1 for very young business (1~15), young business (15~25), adult business (25~40) and older business (40 above). Similarly, a dummy variable was used, for example, a dummy variable 1 when the firm belongs to very young and 0 for otherwise. Considering M&A among firms, the requires reorganization of affiliates to create new affiliates that make the date of establishment seems young, but in fact the former affiliates have accumulated abundant business experience in Japan for a long time, while I can not make clear of which subsidiary is established by the ways of M&A for the data I use, I will further study about the aspect in future by collecting information referring to the M&A news from a long-time study in the future. For the measurement of subsidiary size, categorical variable was used too. I coded 1 for very small business (1~10), small business (10~50), median business (50~100), large business (100~300), very large business (301 above). Similarly, a dummy variable was used, for example, a dummy variable 1 when the firm belongs to very small and 0 for otherwise.

Results

Table 2 presents the results of correlation matrix for variables used in this study. I used conservative two-tailed tests throughout. It shows that 81.8% (China), 37% (Hong Kong), 68.4% (Taiwan) executive positions at affiliates of Overseas Chinese firms are filled by PCNs for our sample. Considering the board members have the authority to influence the decision-making process of the firms, I construct the PCN ratio as the number of foreigner executive members in the board members.

Table 2: Descriptive Statistics and Correlation Matrix

<i>Variable</i>	<i>Mean</i>	<i>S.D.</i>	<i>N</i>	1	2	3	4	5	6
1 Parent Country Nationals =1	0.65	0.480	172						
2 Parent Country Nationals <i>Ratios</i> (%)	0.641	0.448	172	0.923**					
3 Size of Affiliate	1.99	1.078	173	-0.042	-0.014				
4 Age of Affiliate	1.66	0.923	173	-0.135	-0.084	0.277**			
5 Ownership of Affiliate	3.44	0.964	155	0.416**	0.457**	-0.206*	-0.196*		
6 Complexity of Affiliate	1.33	1.052	173	-0.021	-0.094	0.438**	0.234**	-0.134	
7 Power Distance Index (PDI)	69.35	9.348	139	0.150*	0.151*	-0.051	-0.135	-0.052	-0.015
8 Uncertainty Avoidance Index (UAI)	42.57	18.588	173	0.065*	0.059	-0.051	-0.084	0.143	0.014

* Correlation is significant at the 0.05 level (two-tailed)
 ** Correlation is significant at the 0.01 level (two-tailed)

Table 3: Results of OLS logistic regression model for likelihood of Parent Country Nationals as executive manager

<i>Variables</i>	<i>model 1</i>		<i>model 2</i>		<i>model 3</i>		<i>model 4</i>	
	<i>B</i>	<i>S.E.</i>	<i>B</i>	<i>S.E.</i>	<i>B.</i>	<i>S.E.</i>	<i>B</i>	<i>S.E.</i>
(Constant)	-0.046	0.192	-0.084	0.195	0.691	0.366	-2.676	0.719
Size of Affiliate	0.014	0.039	-0.004	0.043	0.002	0.042	0.022	0.042
Age of Affiliate	-0.013	0.047	-0.013	0.047	-0.021	0.046	0.020	0.047
Ownership of Affiliate	0.197	0.041***	0.199	0.041***	0.205	0.041***	0.189	0.040***
Complexity of Affiliate			0.051	0.046	0.055	0.045	0.024	0.045
Power Distance Index (PDI)					0.008	0.004*	0.029	0.008***
Uncertainty Avoidance Index (UAI)							0.013	0.004*
Frequency		130		130		130		130
		$R^2=0.160$		$R^2=0.168$		$R^2=0.193$		$R^2=0.254$
Explanation Power	<i>Adj. R</i> ² =0.140		<i>Adj. R</i> ² =0.142		<i>Adj. R</i> ² =0.161		<i>Adj. R</i> ² =0.218	
	F=8.009***		F=6.325***		F=5.938***		F=6.982***	

* Correlation is significant at the 0.1 level
 ** Correlation is significant at the 0.05 level
 *** Correlation is significant at the 0.01 level

Ownership, Power Distance Index and Uncertainty Avoidance Index show a significantly positively correlated relationship with the appointment of MNCs to send PCN executive managers in the affiliates in Japan, yet, the Uncertainty Avoidance Index factor didn't show a significantly correlated relationship with the appointment of PCN executive managers in the board of directors.

The results of OLS regression in Table 3 show the likelihood of having a PCN as executive manager in Japan of Overseas Chinese firms. Model 1 consists of variables as size, age, ownership of the affiliates. Size of the affiliates, measured by the number of employees, same studies using this approach can be found in Harzing (2001). In model 2, I increase complexity of affiliates in model 2, Power Distance Index in model 3 and Uncertainty Avoidance Index in model 4. As shown in table 5, the goodness of fit in our empirical model was significantly ($p=0$), R^2 (model 1~model 4) are changed from 16 percent to 25.4 percent. Adjusted R^2 (model 1~model 4) are changed from 14 percent to 21.8 percent.

The test for the hypotheses regarding culture (Power Distance index, Uncertainty Avoidance index), determined that the assumption of PDI (hypothesis 1) and UAI (hypothesis 2) were significant ($P<0.05$ for both). This means, the likelihood of sending PCN executive managers of country with a high PD and high UAI is high. When I investigated factors of affiliates, consist of the size (hypothesis 3), age (hypothesis 4), ownership (hypothesis 5) and complexity (hypothesis 6). Hypothesis 3: It shows no significance by the number of employees. Hypothesis 4: It shows no significance by age. Hypothesis 5: It shows very significant positive relation by the ownership of the subsidiary ($P<0.01$). Hypothesis 6: It shows no significance by the complexity of the affiliates. These results mean that affiliates of foreign MNCs with high ownership and size will send more PCN executive managers to Japan.

IV . Discussion and conclusion

This study demonstrated several factors, classified as national culture, subsidiary, which are related to the decision of likelihood to send parent country executive managers to affiliates across borders, investigated the extent to which executive nationality staffing practice patterns in affiliates of multinationals from Overseas Chinese firms based in Japan. Based on a data 173 affiliates from Toyo Keizai (2008), this is the first study focus on Overseas Chinese firms in Japan from both cross-culture approach and MNE

organization behavior approach. I found that the aspect (high PDI, high UAI) should lead a high ratio of PCN as a subsidiary manager and got some new important findings. The finding in this study is shown below.

First, I examined Overseas Chinese firms covered China, Hong Kong and Taiwan. Overseas Chinese firms had a high rate of PCNs executive positions as a top manager (Table 1). The motive of sending PCNs executive managers may be *managing development*. In my studies, the low rate of PCNs as a top manager of Hong Kong may be due to reverse import by some Japanese firms since they set up headquarters in Hong Kong and factories in China, but selling their products in their branches in Japan. Furthermore, consider the framework by Perlmutter (1969), the reason for high ratio of PCNs executive managers sent from Overseas Chinese firms, can be that overseas Chinese firms are more like to utilize ethnocentric polices, because the globalization speed of Asian firms is still behind other advanced countries for Pudelko and Harzing (2007) gave a clear warning that ethnocentric approaches are no longer sustainable in today's globalized corporate environment. Second, I follow a cultural-approach by Hostede. I obtain a statistically significant relation of high PDI and low UAI with the likelihood of sending a PCN as an executive manager. Finally, the ownership of affiliates is positively related to the likelihood of using PCNs in executive management positions. The size, complexity and age of the affiliates were found to not significantly relate to the use of PCNs in executive management positions. The potential reason can be that after other factors analyzed here are unified.

Responding to the question of "Who are in charge of these Overseas Chinese firms?" raised in the introduction part in this study, I could get comprehensive understanding above question in this study. The answer can be interpreted by concluding on some characteristics of the PCNs executive staffing polices by overseas Chinese firms from the Tables 1. One of the notable features of the characteristics is that firms from Overseas China show a high ratio of PCNs managers. The ownership share of most firms from Overseas China in Japan are wholly owned, result in a positive relationship between ownership and ratio of PCNs top managers, most firms are under the charged of PCNs managers. The age of firms from Overseas China is young, usually in the category of 1~15 and 15~25, so, most of these firms are managed by PCNs executive.

V . Directions for Future Research

I did not address Third Country Nations (TCNs) managers staffing policies for the nature of TCNs cannot be made clear from the data I used. I limit the discussion to the assignment of executive policies across borders, a comprehensive research of localization about overseas Chinese firms management policies: research about recruitment, training, promotion, performance appraisal, financial reward, etc, should be investigated by interview research in the future. In addition, in the future, studies about this field should consider the embeddedness approach for several studies have made on embedding activities of foreign firms, recently (e.g., Pudelko & Harzing, 2007; Jacoby, 2005; Schlunze, 2007). Pudelko and Harzing (2007) discovered MNCs might limit the export of PCNs (country-of origin) practices to their core competences and converge to best practices in other areas. Jacoby (2005) proposed that the embedded corporation provides an accessible and engaging perspective on many of the current issues facing the human resource by the comparative study of U.S. and Japanese employment systems and organizations. Schlunze (2007) emphasized that the successful embeddedness strategy of most foreign MNCs in Japan are obliged to follow strong adjustment of organizational and managerial practices. However, this study does provide the large-scale study investigating a large number of factors influencing executive staffing practices in foreign affiliates and provided a study executive staffing practices of firms in Japan. Furthermore, the result of the analysis lets us assume that there is much more complexity of factors influencing overseas Chinese firms management in Japan than this study is able to address.

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